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STATE FOR WHA/CAR (RBUDDEN), WHA/EPSC (JSLATTERY)
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TAGS: [ECON](#) [PGOV](#) [PINR](#) [PREL](#) [XL](#) [JM](#)
SUBJECT: JAMAICA'S "FINANCE MINISTER IN WAITING" ROLLS OUT
ECONOMIC PLAN

Classified By: Classified by DCM James T. Heg for reasons 1.5 (b) and (d)

SUMMARY

¶1. (C) In a private meeting with DCM and EMBOFFS, JLP Shadow Finance Minister and member of Parliament Audley Shaw outlined a slew of policies, including a new debt management program and tax reforms, to restructure the Jamaican economy. After 18 years in opposition, "Jamaica's Finance Minister in waiting", Audley Shaw, is convinced the Jamaica Labor Party (JLP) will be mandated by the people of Jamaica to resurrect the nation's economy. Shaw confirmed that, to date, he is the only JLP member to be publicly promised a ministry by Opposition Leader Bruce Golding in the event the party is elected. Any restructuring of the economy will require difficult decisions with uncertain political implications. A change in government will also bring increased expectations. If not managed properly, the high expectations, coupled with the current atmosphere of dissatisfaction, could very well find the JLP repeating the familiar circumstances of 1983, when the party became highly unpopular because of measures imposed to head off the economic decline of the 1970's. Although confident that his JLP party will win, Shaw evinced concern about the effect on JLP finances of Prime Minister Portia Simpson Miller's announcement of an unusually long seven week campaign period before the August 27 general election. End summary.

Current Situation Untenable

¶2. (SBU) On July 16 emboffs met with Opposition Spokesman on Finance and Planning, Audley Shaw, to discuss the JLP's economic plans. Expressing that Jamaica under the governing People's National party (PNP) was not investor or business friendly, Mr. Shaw summarized his perceptions that the economy had become too dependent on debt for its survival. As a debt dependent economy, Jamaica is experiencing a crowding out of private participation due to interest cost increases. Shaw said that when JLP left government in 1989, the total shock of debt was JMD 30 billion (USD 5.2 billion). By the end of 2006, the debt soared to JMD 930 billion (USD 14 billion). Even more disconcerting was the shift in borrowing from multilaterals such as the World Bank to commercial

borrowing at the equivalent of what he called "junk bond rates". Mr. Shaw understands the shift from multilateral to domestic loaners by the government to be a deliberate attempt to avoid the scrutiny and conditionality of the multilaterals. Shaw also asserted that the economy has been in a state of stagnation, growing at an average rate of 0.6 percent annually over the last 18 years, below the rate of population growth. He said at the same time 80 percent of secondary school students are graduating without mastery of even one subject - a state of functional illiteracy.

New JLP Government to Restructure Economy

13. (SBU) Shaw believes that the economy requires radical restructuring to achieve average sustained growth rates of at least six percent and address the ills of the current economic situation. A JLP government that has him as Finance Minister would embark on a four point plan to grow the economy. (Note: Shaw confirmed that, to date, he is the only JLP member publicly promised a Ministry by Opposition Leader Bruce Golding in the event the party is elected. This could be the reward for Shaw's decision not to contest the leadership race that saw Golding become the Opposition Leader. End note.)

14. (SBU) First, Shaw said he would formulate a debt management strategy of increased borrowing from multilaterals at lower interest rates. Shaw expects this strategy will free up domestic resources for the private sector to borrow and invest at competitive rates. The JLP plans to engage the private sector. Currently the private sector owns most of the public debt. In his proposed social partnership, the private

sector would accept lower interest rates. In return the government would agree to certain economic targets. The second layer of Shaw's plan addresses sustainable energy policy. Investors complain about the cost and reliability of energy. Jamaicans pay as much as USD 0.23 per kilowatt hour for electricity. Other Caribbean nations pay as little as USD 0.13 per kilowatt hour for electricity. An alignment with the rest of the Caribbean would reduce the cost of doing business and increase the competitiveness of Jamaican businesses.

15. (SBU) Thirdly, the Shadow Finance Minister plans to rationalize the bureaucracy that can currently take a year to deliver approvals for business projects. Even the present GoJ, he said, accepted that red tape deters a number of potential investment projects. If Shaw has his way, a JLP administration would reduce the bureaucracy by reducing the approval process to a maximum of three months. Fourthly, the reduction in bureaucratic obstacles to investment would be accompanied by comprehensive tax reforms. Shaw thinks the current tax burden is too high and should be reduced to free up resources for investment and growth. In particular, he would bring corporate income taxes in line with personal income taxes, while increasing the personal tax threshold. Shaw expects these reforms to stimulate investment and would form part of his overall investment policy.

But Can Shaw Make the Hard Decisions?

16. (SBU) Restructuring of the Jamaican economy requires making difficult decisions that may lead to a disgruntled populace. When asked if his administration would be willing to make decisions in the country's long term interest that may be unpopular, Shaw stated that the JLP had done so in the 1980's. On the issue of public sector rationalization, Shaw said the JLP is the only government to have downsized the public sector (Seaga, he said, reduced government employment from 100,000 to 70,000 during the 1980,s), and he would be prepared to downsize again. On the related issue of divestment, Shaw was quick to point out that there are no "sacred cows", all public assets would be up for sale; even politically sensitive assets like Air Jamaica (if its current

restructuring is unsuccessful) and the Sugar Company of Jamaica would not be spared. Shaw thinks that once these loss making entities were shed, it would lead to an automatic lowering of the fiscal deficit. He said the most successful public sector entities would be packaged and offered to the public through an initial public offering (IPO).

¶17. (SBU) Shaw made it clear that casinos were definitely on the agenda. He thinks casinos are vital for the future of the tourism industry. He reiterated the JLP's plan to development downtown Kingston as the financial center of the Caribbean. Offshore health and education are also expected to be important items in Shaw's master plan. When asked about his plan to finance the JLP's free education proposal, Shaw said it would cost about JMD 1 billion (USD 14 million) and cost sharing at the secondary level would be eliminated. Shaw told emboffs that combining agro-industry and tourism would be important element of any plan for moving forward. In particular, the JLP concentrate on green house technology and other tourism attractions.

JLP on Victory Course

¶18. (U) contrary to what some polls were showing, Shaw seemed confident that the JLP would win the next elections. "We are confident of victory, as there has been a greening of the country" Shaw said, referring to his party's color. As an aside, he quickly asserted that corruption existed in political polling. Shaw followed up by saying the polls were showering a general dissatisfaction with the current administration. He claimed that the same polls showed that almost 70 percent of Jamaicans think the country is going in the wrong direction.

¶19. (U) Shaw believes if the People's National Party (PNP) wins the next election, Jamaica would face serious social and economic instability. He said the PNP was not capable of

providing the required intellectual and moral leadership, and nepotism and corruption in areas like the Universal Access Fund (cable to follow) would continue unabated. He predicts whistle blower legislation will become critical going forward were the PNP to win the upcoming elections.

¶10. (C) After the formal discussion, DCM took the opportunity to ask Shaw about the political situation. He reiterated confidence that the JLP would prevail, and said "it won,t be close" based on a constituency by constituency analysis. Shaw said published Jamaican polls are not reliable as they are tainted by partisan bias. Asked which constituencies would be the most important to watch, Shaw cited Southeast and Southwest St. Elizabeth, Central Manchester, and St. Mary,s. As an example of how things are looking better for the JLP, Shaw said previously they expected to win two out of three seats in St. Mary,s but do not anticipate winning all three. Incipient election violence was, according to Shaw, a sign of PNP desperation. Most of the incidents so far, he alleged, were precipitated by PNP supporters.

¶11. (C) The only crack in Shaw,s confidence came when DCM asked what effect the Prime Minister,s announcement of August 27 as the election date was having on JLP finances. Shaw said it had strained the budget, as JLP was gearing their effort for a late July election. DCM asked whether the JLP,s normal donors (generally, in the business community) might not step up and provide more funds. Shaw indicated that they were already squealing before the election date was announced.

Comment

¶12. (C) Shaw's presentation suggests that under a JLP government, Jamaica would look much more to the international financial institutions (IFI,s -- World Bank, IDB etc.) not

only for help with the debt and infrastructure problems facing the country, but also for policy advice. The JLP does not appear to share the PNP's traditional and ideological suspicion and animosity to the IFIs, which came out clearly in P.J. Patterson's speech July 8 in which he took credit for the PNP for getting Jamaica out from "under the yoke of the IMF."

¶13. (C) While Shaw's plan is serious and recognizes and attempts to address the problems of the Jamaican economy, the plan apparently does not contain contingencies for the difficulties that could arise. For example, while social partnerships succeeded in countries like Barbados, they are problematic in Jamaica due to the lack of credibility associated with government that inhibits making moral suasion in the short term. Furthermore, any attempt at anything resembling debt restructuring could cause jitters in the international capital markets, where a JLP administration will still have to take out loans. Shaw may miscalculate the political implications of public sector restructuring and the divestment of key, albeit loss making, assets like Air Jamaica and the Sugar Company of Jamaica. JLP may also underestimate the expectations of the Jamaican people. If these challenges are not addressed, the JLP plan could backfire and lead to the party becoming unpopular in short order. Shaw may do well to remember that this very situation played out in the 1980's. During the 1980's, the JLP was forced to implement a number of measures to restructure the economy that made the party unpopular within two years. On the positive side, any attempt to stem the debt, slash bureaucracy and reform the tax system can only benefit the economy. End Comment

Biographical Notes

¶14. (U) Audley Shaw was born in Christiana, Manchester on June 13, 1952. In 1981, Mr. Shaw graduated from Northern Illinois University (NIU) with a Bachelor of Arts and Master of Arts Degrees in Journalism with graduate studies in Marketing, Finance and Public Relations. The Leader of the Opposition appointed Mr. Shaw to the Senate in 1989. He has served as Shadow Minister of Information and Culture, Shadow

Minister of Public Utilities and Transport and Shadow Minister of Industry and Commerce. In March 1993 he was elected Member of Parliament for North East Manchester. In September 1995, he was appointed Chairman of Public Affairs Accounts Committee(PAC) of Parliament - the watchdog of expenditure of public funds by Government Ministries and Agencies. In 1997, General Elections, Mr. Shaw was re-elected to serve a second term as Member of Parliament for his constituency. He was subsequently appointed Show Minister of Finance. In 2002 Mr. Shaw was re-elected to serve a third term as Member of Parliament. Mr. Shaw has served as General Secretary of the Jamaica Labor Party and has been a Deputy

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Leader of the Jamaica Labor Party since 1999. Mr. Shaw is recipient of the Donald R. Grubb NIU distinguished Alumni Award. He is married to Maureen and they have three children.

¶15. (C) Shaw in person appears poised and organized in his thinking, and likely would do well as finance minister. However, his lack of experience on the international stage, while understandable for member of a party out of power for such a long time, might present him with a steep initial learning curve, especially in dealing with debt finance issues. With a clear free market orientation, Shaw likely would prove more enthusiastic about U.S. programs such as the Millennium Challenge Account than the current GOJ Finance Minister Omar Davies, who never showed much interest.

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